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Services B&O Tax Increase, Higher Cigarette Tax Expected to Start May 1; Other Tax Changes to Follow

OLYMPIA – April 20, 2010 – Several tax changes will take effect as early as May 1, assuming Governor Chris Gregoire signs into law a tax package sent to her by the Legislature.

2ESSB 6143 temporarily increases the business and occupation tax rate on services beginning May 1. Another bill, ESHB 2493, increases cigarette and most other tobacco taxes May 1.

The legislation also extends the sales tax to candy and bottled water beginning June 1, increases the beer tax starting June 1, and imposes a carbonated beverage tax effective July 1. All the tax changes expire on July 1, 2013, except the ones on candy and tobacco products.

While the tax changes are contingent on the governor's action, the Department of Revenue is notifying businesses ahead of time so they can prepare for them. Detailed information on each tax measure is being posted at <http://dor.wa.gov>.

The service tax increase to 1.8 percent of gross income from 1.5 percent affects all service businesses except hospitals and scientific research and development activities. The "services and other business activities" classification includes businesses such as attorneys, architects, engineers, physicians and private investigators.

The measure includes a permanent doubling to \$70 a month of the small business B&O tax credit that will allow services to gross up to about \$80,000 annually without incurring any additional B&O tax liability, and in some cases paying lower taxes. About 74,000 service businesses out of a total of 137,000 companies will benefit from the increase in the credit.

2ESSB 6143 also temporarily suspends a sales tax exemption affecting livestock nutrient management, repeals a property management salary exemption, limits the bad debt deduction on retail sales, requires corporate boards of directors to pay tax on their fees, directs the Department to deny abusive tax avoidance schemes, addresses several court decisions affecting taxation, and sets minimum nexus standards affecting out-of-state companies doing business in Washington. More information on the legislation is available at <http://leg.wa.gov>.

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